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DOCKET FILE NO. 97-82

July 28, 1997

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

Re: Notice of Ex Parte Communication
Broadband PCS C and F Block Installment
Payment Restructuring; WT Docket No. 97-82

Dear Mr. Caton:

NextWave Telecom Inc.

On Friday, July 25, 1997, representatives of NextWave Telecom Inc. ("NextWave" or "company") met with David Siddall, Legal Adviser to Commissioner Ness, to discuss issues in the above-referenced proceeding. The views expressed by NextWave's representatives were previously presented to the Commission in the company's written filings, and a copy of material distributed by NextWave at the meeting is included with this letter.

In accordance with Section 1.1206 of the Commission's rules, an original and two copies of this filing are being submitted to you today. Please direct any questions concerning this matter to me or Michael Wack at 202-347-2771.

Sincerely,

Janice Obuchowski
NextWave Telecom Inc.

1101 Pennsylvania Avenue, N.W.

Suite 805

Washington, D.C. 20004

Tel. 202.347.2771

Fax. 202.347.2822

www: nextwavetel.com

Attachment

cc: David Siddall

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NextWave Telecom Inc.

Debunking the 10 Biggest Myths About Restructuring

July 25, 1997

Myth #1: Restructuring Harms Taxpayers

- ◆ The NextWave proposal provides for payment in full of all principal and all interest -- Government remains whole.
- ◆ Restructuring is not corporate welfare. PIK-based payment schedule is a standard industry practice.

<u>Company</u>	<u>Non-Cash Period</u>	<u>Instrument</u>
McCaw	4.5 Years	Senior discount debentures
Nextel	5.5 Years	Senior discount notes
Cleartel	6 Years	Senior discount notes
Aerial	10 Years	Zero coupon due 2006
Sprint	5 Years	Senior discount notes

-
- ◆ The result most harmful to taxpayers will be a reauction, which will yield “fire sale” prices.
 - Impact of 2.3 GHz auction on spectrum market
 - Impact of extended 2+ year headstart; there are now more than 100 A and B markets built and operating.

Myth #2: The Commission has the option of “waiting it out”

- ◆ “Temporary” steps only exacerbate financial market’s lack of certainty concerning ability of new entrants to compete in an era of market consolidation and changing spectrum and budgetary policy.
- ◆ Unbuilt spectrum is a “wasting asset” given buildout and customer acquisition progress by incumbent competitors.
- ◆ Every day of delay adds to incumbents’ already substantial time-to-market advantage, undercutting the public policy goal of fostering wireless competition.
- ◆ Further market improvement is inherently speculative.

Myth #3: Entrepreneurs' auction is already a success

- ◆ No stand-alone C Block licensee has completed a public debt or equity offering in 1997.
- ◆ Licensees seeking restructuring comprise over 90% of the top 50 C Block POPs and 95% of top 50 markets.
- ◆ Without those C Block licensees, remaining Entrepreneurs cannot succeed in providing nationwide, robust competition to incumbents.
- ◆ Many small entrepreneurs have not been able to actively participate in this proceeding; lacking funds to do so they have relied on industry advocates such as NAPE.

Myth #4: Financing is available as evidenced by financing of other wireless carriers

- ◆ All reported financings involve either established carriers or entities funded by established carriers.
- ◆ All participants on Finance Panel at WTB Public Hearing agree that C Block cannot be financed under existing payment structure.

Myth #5: C Block success not prerequisite to wireless competition

- ◆ 75% of cellular/PCS spectrum is controlled by “Legacy” telecommunications players with a tendency towards oligopolistic behavior.
- ◆ Absent new C Block entrants, markets will see license consolidation and ultimately end up with only 4 competitors.
- ◆ Legacy players are not providing competitive opportunities to small businesses and resellers today. C Block entry is needed to change this equation.

(More)

-
- ◆ Today, 70% of resellers are denied volume discounts that Legacy carriers offer their own retail customers;
 - ◆ Even AT&T Wireless, the largest wireless carrier, has informed the Commission that it cannot obtain reasonable roaming/resale agreements with incumbent carriers.
 - ◆ Rapid buildout of C Block infrastructure needed to create new market entry opportunities for resellers.

Myth #6: The C Block bidders were reckless and deserve no Commission consideration

- ◆ CBO report found that C Block prices were reasonable.
- ◆ CBO report also states that A and B Block prices were lower than C Block prices because of a relative lack of competition in that auction. A and B Block auction bidders received bargain prices.
- ◆ The eligibility ratio in the A and B Block auction was 1.9; the eligibility ratio for the C Block was 6.7.

CONGRESS OF THE UNITED STATES
CONGRESSIONAL BUDGET OFFICE

A
CBO
STUDY

APRIL 1997

Where Do We
Go From Here?
The FCC Auctions
and the Future of
Radio Spectrum
Management



per-megahertz price paid for the Chicago licenses was \$1.05—notably higher than the prices paid for the single competitively auctioned licenses in the New York and Los Angeles markets (\$0.56 and \$0.86, respectively). Prices could be expected to vary between markets on the basis of consumer demographics—income and time spent commuting in automobiles, for example—but differences as large as those evident in the A&B block auction are too great to be explained by such factors.

Additional questions about the efficiency of the distribution of licenses in the A&B block auction and the two other broadband sales that followed it are raised when the average prices for licenses are compared. The average per-person, per-megahertz price in the A&B block was about \$0.50. The C block auction registered a substantially higher price of about \$1.35, which drops to about \$0.80 after adjusting for the terms of the installment payments available to the small businesses that won C block licenses (see Box 1, which discusses the differences in prices paid for licenses in the A&B and C block auctions). In contrast, the average price in the D,E&F auction was about \$0.35, lower than that reported in either of the broadband PCS auctions that preceded it. Prices could be expected to vary among the auctions because the licenses sold granted the right to use different-sized blocks of spectrum that allowed the licensee to operate in different-sized geographic areas. Nevertheless, the ranking of average prices from high to low corresponds to the potential competition in each of the auctions as measured by the eligibility ratio. That ratio was 6.7 for the C block sale, compared with 1.9 for the A&B block sale and 1.7 for the D,E&F sale.

Why wasn't the A&B block auction more competitive? Fewer bidders entered that auction because the FCC restricted participation by the current holders of cellular licenses and permitted would-be competitors to join forces before the auction began. Both decisions should be evaluated as trade-offs between ensuring competition in wireless telecommunications markets and ensuring competition in the auctions for licenses to participate in those markets. Specifically, the commission chose to sacrifice the opportunity to maximize auction receipts to ensure an adequate number of technically capable and financially sound service providers and, ultimately, to sustain the competitive pricing and services that such providers would bring to telecommunications markets.

Table 2.
Total Population in Markets for Personal Communications and Cellular Telephone Service Covered by the Three Largest Winners in the A&B Block Auction (In millions of people)

	Personal Communi- cations Services	Cellular Telephone Services	Total
AT&T	107.0	68.3 ^a	175
WirelessCo	144.9	28.4 ^b	173
PCS PrimeCo	57.2	110.4 ^c	167

SOURCE: Congressional Budget Office based on Peter Cramton, "The FCC Spectrum Auctions: An Early Assessment" (draft, University of Maryland, July 15, 1996), Table and Cellular Telephone Industry Association, *The Wireless Marketbook* (Spring 1996).

- Estimated as the difference between the total mobile telephor population as reported by the Cellular Telephone Industry Association and the total population in the personal communication services markets as reported by Cramton.
- Represents the cellular telephone markets of WirelessCo partners Comcast (7.6 million people) and Cox Communication (20.8 million people).
- Represents the cellular telephone markets of Bell Atlantic/NYNEX (57.7 million people) and AirTouch (55.2 million people) adjusted downward by 2.5 million people for overlapping licenses in Arizona markets.

The result of the A&B block auction that most strongly suggests an efficient distribution of license was the success of bidders in aggregating groups of licenses. Each of the three largest winning bidders—AT&T, WirelessCo, and PCS PrimeCo—won license that enable them to offer nationwide service.²⁴ The PCS licenses won by AT&T and PCS PrimeCo, when combined with the cellular telephone licenses that each bidder already owned, provide nearly complete national coverage. WirelessCo, the largest winner in the auction, had the smallest cellular coverage but won 29 PCS

24. WirelessCo is a combination of the long-distance telephone company Sprint and three large cable television companies (TCI, Comcast, and Cox Communications). After the A&B block auction, WirelessCo changed its name to SprintCom. PCS PrimeCo is a combination of three regional Bell operating companies (NYNEX, Bell Atlantic, and USWest) plus AirTouch (a spin-off of another former Bell company PacTel), which provides cellular telephone service in PacTel's operating area.

Myth #7: A change in the rules at this date would be unfair to other bidders

- ◆ No rule change is required. Pre-auction FCC rule permits restructuring of payment obligations (Section 1.2110(e)(4)(ii)).
- ◆ Parties whose models valued spectrum the highest would have won regardless of what rules were in effect at the time of the auction.
- ◆ Entities such as Fidelity/GO Communications, left the auction with standing high bids that would not be financeable in today's market, e.g., GO Communications \$58.24 net per POP bid for Miami, North Coast Mobile \$52.45 net per POP bid for New York, and U.S. AirWaves \$38.46 net per POP bid for Dallas.

Myth #8: Restructuring would create harmful tax impact

- ◆ The “Discharge of Indebtedness” tax code section expressly does not apply here.
- ◆ That section does not apply, and no discharge of indebtedness is realized where:
 - An entity’s liabilities (in this instance, including license debt) exceed its assets; or,
 - The debt arises from the purchase of the property at issue.

Myth #9: Revision of bankruptcy laws is necessary to protect the integrity of the auctions.

- ◆ Change in bankruptcy laws would further complicate financing opportunities at a time when financing for new entities already is scarce.
- ◆ It is ironic that many parties who argue that rules should not be changed also argue for changes in the bankruptcy laws themselves.

Myth #10: Restructure would compromise the integrity of the auction process

- ◆ The Commission has performed incredibly well in conducting auctions, but the enormity of the process assures that the work done to date has not been perfect and should be changed as circumstances warrant.

The Truth of the Matter:

“Winning [C Block] bidders fashioned bids in accordance with the best information available at the time. Subsequent unforeseen and unforeseeable events, however, conspired to diminish the value of the licenses and close the financing window for start-up PCS ventures. The major event was collapse in market value for radio licenses.”

– Larry Darby, Darby Associates, 7/21/97 (emphasis added)

The Truth of the Matter:

“To the extent that the C Block delays continue, it is a boon to incumbent operators, as the competitive landscape will not become as heated as quickly as anticipated.”

– Jeffrey L. Hines, NatWest Securities, 6/30/97

The Truth of the Matter:

“Omnipoint should also benefit if the terms [of the Government financing] are not changed because some of its competition would come even later, if ever, to the market.”

– Richard Prentiss, Raymond James and Associates,
7/8/97

The Truth of the Matter:

“The continued delays in C Block financing are a positive for both cellular and PCS: (1) it delays a new entrant and (2) any reduction/easing of terms will create a less desperate competitor and therefore maintain a more rational market. This particularly extends the lead enjoyed by existing PCS players such as Omnipoint, Western Wireless, and Aerial.”

– Thomas J. Lee, Smith Barney, 7/11/97

Conclusion

- ◆ There is a win/win solution for competition and taxpayers.
- ◆ Rescheduling keeps government whole.
 - Ability to ensure taxpayer and competition
- ◆ Reauction's limitations

SMITH BARNEY INC.
FROM: BRUCE BARGE

THOMAS J. LEE

Comments on WSJ article on FCC changes to C-block payments; not a surprise

07/11/97 Mobile Communication Systems (U.S. ONLY) THOMAS J. LEE

SUMMARY:

- * According to WSJ article today, the FCC is expected to announce changes for the C-block PCS licensees from quarterly to annual interest payments
- * The change in our opinion is not a surprise given the FCC previously "indefinitely" delayed quarterly payments on the debts
- * This does little to address the critical challenge facing C-block

holders - their high prices paid makes financing nearly impossible

Net-net: the continued delays in C-block financing are a positive for both cellular and PCS: (1) it delays a new entrant and (2) any reduction/easing of terms will create a less desperate competitor and therefore maintain a more rational market. This particularly extends the lead enjoyed by existing PCS players such as Omnipoint (OMPT-2S, target \$31), Western Wireless (NWCA-2S, target \$29) and Aerial (AEKL-3S, target \$14)

07/11/97 Mobile Communication Systems (U.S. ONLY) THOMAS J. LEE

OPINION:

According to an article in the Wall Street Journal today, the FCC is expected to announce changes in interest installment payments for the C-block PCS (personal communications service) licensees from quarterly to annual interest payments.

** The change in our opinion is not a surprise given the FCC previously "indefinitely" delayed quarterly payments on the debts.

** A potential change to annual installments does little to address the critical challenge facing many C-block license holders - their disproportionately high prices paid (compared to previous auction winners) makes obtaining financing nearly impossible, and therefore delays their entrance into the wireless marketplace.

** We believe any resolution to the debt outstanding will involve protracted negotiations and probably ultimately result in one of two scenarios: (1) a revocation and reauction of the spectrum of defaulted C-block license owners or (2) an effective reduction of the present value of the debt owed to the FCC either through a reduction in principle value or extension/modification of payment terms.

Net-net: We reiterate that the continued delays in C-block financing are a positive for existing wireless carriers, both cellular and PCS, for two reasons: (1) it delays a new entrant in the marketplace and (2) any reduction/easing of financing terms will create a less desperate competitor and therefore more likely maintain a rational marketplace. In any case, it appears that the wireless marketplace in the next few years will be a less crowded space (4 players total) than originally envisioned twelve months ago. We would note the following three observations:

1. This extends the time to market lead enjoyed by existing new entrants (PCS, or personal communications services) players such as Omnipoint (OMPT-rated 2S, target \$31), Western Wireless (NWCA-rated 2S, target \$29) and Aerial Communications (AEKL-rated 3S, target \$14) and would be buyers of their stock.

2. Delays in the C-block also benefit the cellular incumbents including 360 Communications (XO-rated 2M, target \$30), AirTouch (ATI-rated 3M, target \$28), Vanguard Cellular (VCKLA-rated 3H, target \$14) as their existing market share will be subject to less intense competition (one less competitor). Still, we believe urban cellular carriers are subject to the "cellular straight-jacket" and therefore remain cautious on AirTouch (see our 1997 review dated May 15, 1997).

WIRELESS WAVES

NATWEST SECURITIES

A weekly update of NATWEST's global Wireless Services & Wireless Equipment stocks

June 30, 1997

Jeffrey L. Jhims (212) 602-5741

Volume 3, Issue 26

MARKET RECAP: With some trading lull last, 2097 shares strong market (S&P500 + 14.7%) as telecom causes fleeting back bid by CLETS (+32.9%), Cable (+23.7%), & Esmat. (+19.5%).

Company/Market	Open	Or A	Market A	LTN	YTD
CECO/Other (10)	111	32%	10.5%	8%	11%
Paging (9)	81	31.5%	8.5%	-6.5%	-19%
Other (72)	119	23.7%	12.7%	5%	19%
Business (21)	112	13.8%	8.3%	3%	12%
S&P 500	887	14.7%	4.6%	35%	20%
PCS/Other (11)	100	14.6%	6.2%	-10%	0%
Other (17)	115	12.9%	5.1%	0%	15%
Wireless (14)	111	14.4%	2.5%	17%	11%
30-year T-bond yield	6.24%	-34bp	-17bp	-16bp	13bp

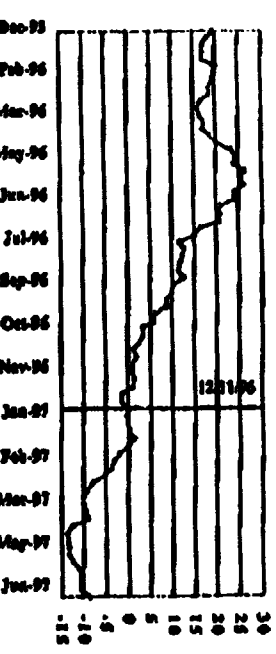
FCC getting closer to cleaning up C-Block?

Suggestions were due this week on what the FCC should do regarding the C-Block PCS licenses, since they still have sizable debt owed to the federal gov't. It should also be no surprise that the C-Block winners in question offered up several suggestions, including lengthening the financing/payment schedule, reducing the interest rates, or take permits on the dollar for what they originally bid. We find it disappointing that the same bidders who bid up prices during the auction, and forced more "rational" and perhaps "credible" bidders to drop out, are now asking the FCC to amend their payments. To the extent that the C-Block delays continue, it is a boon to incumbent operators, as the competitive landscape will not become as heated as quickly as first anticipated. Two basic scenarios seem likely: 1) the FCC accepts less money under amends the payment structure, or 2) the FCC demands payments under the "original" terms. In either case, it appears any significant C-Block competition is at least a year off. If the FCC amends the finance structure (scenario 1), bidders that dropped/were forced out will likely tie up the licenses in court. If the FCC plays hardball (scenario 2), defaulting C-Blockers could tie the licenses up in Chapter 11 court, after which they will have to be auctioned (both could take considerable time). We note that the FCC has already "bent" on its rules, by delaying payments.

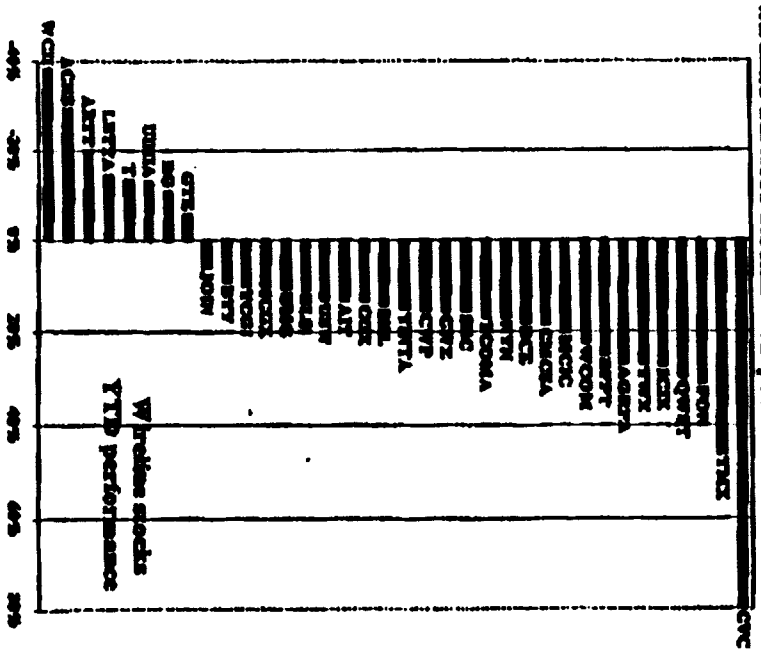
Notes & Notes: It Really Is A Wireless World
 • The FCC issued a "proposal" to amended rules for the 800 MHz SAR auction - which should allow NEXTEL (NXTL-518 34-B) to secure 10 MHz of contiguous spectrum quickly - allowing Nexcel to bid for so called "tower" 800 channels, a new development.
 • MOTOROLA (MOT-576 7/8-B) announced orders for nearly \$250 million of wireless infrastructure, including \$65M for a GSM network and \$20M for a TACS expansion both in China, and a \$12M order for an AMRS expansion in Brazil.
 • NOKIA (NOKA-5754-A), ERICSSON (ERIC-540%-E), and MOTOROLA, along with Unifred Planet, announced plans to co-develop an open protocol for wireless data, e.g. the way cellular /PCS handlers communicate with computers for things like stock

quotes, e-mail, fax, Internet, info-service, etc. An open protocol could hasten the development of larger scale wireless data services.
 • CLENAYRE (CHAS-516 1/8-A) announced what could be the first of several paging infrastructure orders from CELPAC of Puerto Rico and its associates throughout Latin America. The STM order for an alphanumeric system is expandable to regional / nationwide and upgrade-able to RaFLEX for two-way.
 • BELL CANADA (BOS-528 3/16-NF) is considering fixed wireless as part of its \$20M local network upgrade.
 • WINSTAR (WCE-513-NF) commenced commercial operation of its wireless local loop at 38 GHz in its 5th city, San Diego. Winstar also received 4 new licenses from the FCC, giving it a footprint in 47 of the top 50 cities in the US.

Parameters: Telecom stock performance vs. S&P500



Wireless Services stocks: YTD performance



TELECOMMUNICATIONS SERVICES

July 8, 1997 — Initiation of Coverage

RICHARD PRENTISS

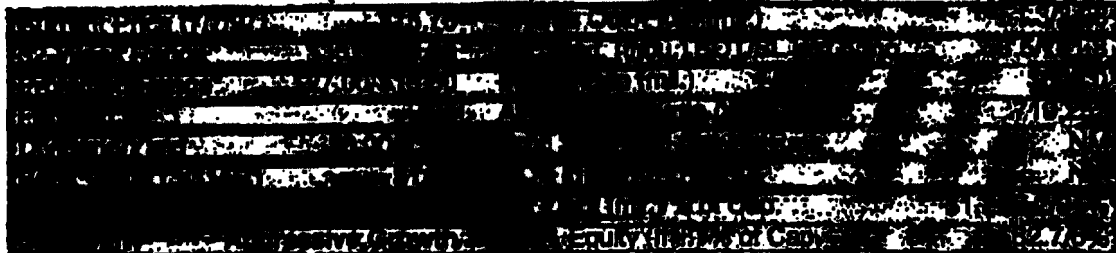
(813) 573-3800 x2567

TOM STASZAK

RESEARCH ASSOCIATE

1892250

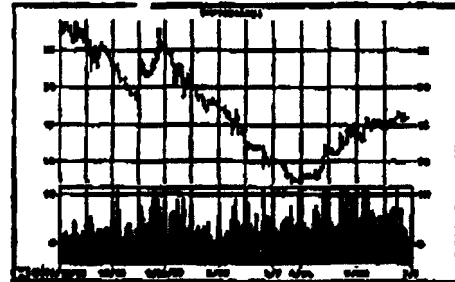
OMNIPOINT CORPORATION (OTC-OMPT) — RATING: BUY (1)



Based on detailed discounted cash flow analysis.

NM: Not Meaningful

EPS (FY=Dec)	1996A(a)	1997E	1998E
Q1 (Mar)	\$(0.39)	\$(1.02)A	\$(1.82)
Q2 (Jun)	(0.47)	(1.35)	(1.95)
Q3 (Sep)	(0.55)	(1.64)	(1.95)
Q4 (Dec)	(1.21)	(2.49)	(2.72)
Full Year	\$(2.71)	\$(8.51)	\$(8.44)
Revenues (mil)	\$0.5	\$68.7	\$243.5
EBITDA (mil)	\$(84.8)	\$(184.6)	\$(149.5)



(a) Full-year EPS based on average shares for the full year.

Graph © Automatic Data Processing, Inc., 1997.

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- ◆ WE ARE INITIATING COVERAGE OF OMNIPOINT WITH A BUY (1) RATING AS ITS INTERNATIONALLY ACCLAIMED SENIOR MANAGEMENT TEAM IMPROVES COVERAGE IN NEW YORK AND PREPARES TO LAUNCH SERVICE IN PHILADELPHIA.
- ◆ AS A PIONEER'S PREFERENCE WINNER AND SMALL BUSINESS, OMPT ACQUIRED ITS LICENSES AT A DISCOUNT OR WITH VERY FAVORABLE GOVERNMENT FINANCING. ITS LARGE, LUCRATIVE MARKETS HAVE HIGH POPULATION DENSITIES AND INCLUDE INTERNATIONAL CITIES THAT MAKE OMNIPOINT AN IDEAL PARTICIPANT IN THE CONTINUED CONSOLIDATION OF THE GLOBAL TELECOMMUNICATIONS INDUSTRY.
- ◆ THE FCC IS ACTIVELY CONSIDERING IMPROVING THE TERMS OF THE GOVERNMENT FINANCING. WE BELIEVE THAT REGARDLESS OF ITS FINAL DECISION, OUR MID-YEAR 1998 TARGET PRICE OF \$27 COULD IMPROVE BECAUSE OF BETTER FINANCING TERMS OR SLOWER TO MATERIALIZE COMPETITION.
- ◆ COMBINING THIS WITH THE POTENTIAL OF ITS TECHNOLOGY BUSINESS, "BASEBALL TRADING CARD" LICENSES AND CURRENT 71% UPSIDE TO OUR TARGET PRICE PROVIDES WHAT WE BELIEVE IS A COMPELLING REASON TO INVEST IN OMNIPOINT.

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The Raymond James Financial Center

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